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INFO RUCNAFG/AFGHANISTAN COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 02 KABUL 003543

SIPDIS

DEPT FOR S/SRAP AND SCA/A
TREASURY FOR M. KAPLAN, A. WELLER AND J. CASAL

E.O. 12958: DECL: 11/04/2019

TAGS: [EFIN](#) [EAID](#) [PGOV](#) [PREL](#) [AF](#)

SUBJECT: AFGHAN FINANCE MINISTER UPBEAT, CANDID ABOUT WAY FORWARD

Classified By: Deputy Ambassador Francis J. Ricciardone for reasons
1.4 (b) and (d).

¶1. (C) Summary. Ambassador Eikenberry met with Finance Minister Omar Zakhilwal to discuss funding mechanisms, efforts to increase revenue, and policy positioning for a second Karzai administration. Zakhilwal expressed optimism and indicated he would work to ensure capable leaders are assigned to key ministries to carry out an aggressive reform agenda. He also said it is important for President Karzai to signal in his inaugural address a commitment to greater Afghan ownership on security and development. End Summary.

ENHANCING AID EFFECTIVENESS

¶2. (C) In an October 27 dinner meeting between Ambassador Eikenberry and Afghan Finance Minister Omar Zakhilwal, the Minister thanked the U.S. for its strong support and stressed that he would like to see more U.S. aid transferred via direct Afghan budget support -- something he believes builds "Afghan capacity" and increases the "flexibility" of the government. He indicated the Afghan government could not absorb all U.S. aid through direct budget support at this time, but he believed it is well equipped to handle 40-50 percent of our aid. Zakhilwal also noted direct budget support is preferable to channeling aid through the World Bank-administered Afghan Reconstruction Trust Fund (ARTF), even though he is generally happy with the ARTF arrangement thus far. He acknowledged systems must be improved within the Ministry of Finance to provide additional transparency -- particularly in the area of procurement. The Minister is also pushing to have Article 61 of the Public Financial Management Law reinstated, which would give the Ministry of Finance internal audit oversight on government expenditures.

INCREASING DOMESTIC REVENUE GENERATION

¶3. (C) Ambassador Eikenberry noted donors are focused on the Afghan Government boosting its revenue intake and this effort must remain a GIROA priority. To increase GIROA revenue collections (which stand at roughly \$1 billion or 8 percent of GDP -- one of the lowest rates in the world), Zakhilwal indicated he is taking a multi-pronged approach. While he recognizes the importance of increasing customs receipts (and enhancing customs collection facilities), Zakhilwal sees great promise in other areas such as airport fees, mining contract transparency, and vehicle registration. To prove his concept, he has (without donor support or urging) worked with the Ministry of Interior to streamline vehicle registration procedures and reduce the corruption that has been associated with this process. As a result, government revenue rose and the public is happier because registration costs are lower since they are not victimized by middlemen and corrupt officials. Zakhilwal plans to pursue similar efforts in a second Karzai administration.

¶4. (C) Another key to increasing domestic revenue generation is taking on corruption. Zakhilwal said he has a "zero tolerance policy" for corruption and indicated his actions to date are putting this policy into effect. The Finance Minister stated he has personally removed numerous customs officers for corruption over the past several months and is now investigating a series of high-level

violations that have been reported to him by Ministry of Finance staff. He said he is zeroing in on major corruption operations at the airport, in Farah province, and with a key telecommunications company. Most recently, the Ministry of Finance issued a press release on October 29 indicating the Ministry -- with support from the Afghan High Office of Oversight and Ministry of Interior -- had uncovered a corruption ring at Kabul International Airport that is defrauding the government of customs revenues that could approach \$30 million.

IMPORTANCE OF BUILDING A STRONG REFORM TEAM

15. (C) Zakhilwal has repeatedly stressed the importance of placing solid leaders within key ministries. He believes the way to achieve this goal is to demonstrate to President Karzai what "is possible" in certain reform areas and then suggest someone who can lead the ministry to accomplish results. For example, Zakhilwal said he applied this strategy to the Ministries of Agriculture and Interior and, as a result, the Government of Afghanistan now has strong, reform-oriented leaders at the helm of both these ministries.

16. (C) In a second Karzai administration, Zakhilwal would like to see stronger leadership in more Afghan ministries (e.g., Mines, Higher Education, etc.). Zakhilwal says this step is essential for the Afghan government to show the public that it has the ability to benefit them and indicated his intention to work closely with President Karzai and other close advisors to help select honest and committed leaders.

WAY FORWARD

17. (C) Overall, Zakhilwal is bullish about Afghanistan's future and

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plans to play a key role in the formation of a new Karzai administration. On needed economic reforms, Zakhilwal noted he has the pen and will continue to push an aggressive agenda. He stressed that Afghan leaders must take more responsibility in areas such as security and fiscal sustainability. He said more "Afghan ownership" is a powerful message that will deeply connect with the people of Afghanistan and should be interwoven throughout the President's inaugural address. Furthermore, he believes President Karzai -- in his inaugural address to the Afghan people (and broader international community) -- must concretely lay out specific goals he intends to accomplish in the next year. Most importantly, he believes the Afghan government must make sure it can "deliver on what is promised" in the coming year.

EIKENBERRY